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A COST PRIMER

Since the approval of Public Law 863 directing changes in the government accounting and budgeting systems, a group of terms has come into use which seems foreign to those of us raised on terms such as allotments, obligations, and expenditures. The so-called new terms are basic to the cost side of accounting and budgeting and must become a part of our every-day operating language. In order that talks, discussions, articles, and regulations may be more meaningful to all of us, the fundamental cost terms are defined or described here.

COST is the use or consuming phase of operations. The dollar value of all items such as our salary and operational gifts and equipment that are used or consumed in doing our daily job are a cost of that job; the costs that all of us incur become a part of the cost of our organizational unit, of an activity, of a major program, ~~of the Agency~~. A cost is incurred when employees have worked, a contract ^{is} completed, printing received, supplies and equipment issued to the person using them in his job. Thus cost is the final phase of the cycle of ordering, receiving, and using goods and services.

COST-BASED BUDGETS are plans for operations stated in terms of the use of goods and services as opposed to ^{the ordering of} ~~when~~ such goods and services, ~~are ordered~~ which is our current obligation method of budgeting.

COST ACCOUNTING is that method which provides for the recording of all the elements of cost incurred to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work or a specific job.

COST CENTER is a unit (organizational, project, activity) selected for the purpose of accumulating costs that can be identified with a single management responsibility. The record in which the cost data is accumulated is technically called a cost account. In discussion and writing these terms will be used

interchangeably. Part of an integrated file. If separated from the file it must be submitted.

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CONFIDENTIAL

COST CLASSIFICATION is the grouping of data in such a manner that it will be most useful to management in discharging its responsibilities. The more common classifications are:

Direct costs - those which may be identified specifically with a given organization, project, or activity such as operational equipment used by a project.

Indirect costs - those incurred for joint organizations, projects, or activities such as station support. These costs are also called overhead costs.

Controllable Costs - those incurred as a result of orders by the management of an organization, project, or activity such as salaries, travel, transportation, equipment.

Non-controllable costs - those incurred in rendering a service to an organization, project or activity and not resulting from the direct order of the management of the organization, project or activity such as ^{Organization -} ~~Agency~~-owned transportation services.

STANDARD COST is a predetermined estimate of the amount that reasonably should be incurred under specified conditions by an organization, project or activity. It has its greatest value as an aid to management in evaluating the actual cost of operations.

COST CONSCIOUSNESS is an awareness on the part of management throughout all levels of the ^{Organization} ~~Agency~~ of performance and the cost of doing business. This awareness is attention to two major aspects of cost:

1. The comparison of the actual direct and controllable costs of the operations for which the particular level of management is responsible with what those operations reasonably should cost; and

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2. The cost effect of demands on others to furnish services to the operations.

The foregoing list of definitions is far from complete but does provide an introduction to cost terminology. In the months and years to come we will hear more about costs and our list of terms will grow.

This change in budgeting and accounting with emphasis on cost is not designed to create more problems of understanding but to provide information that enables management ^{to make} decisions ~~be made~~ on a more accurate and consistent basis.

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TRANSMITTAL SLIP		DATE	(15)
TO: [REDACTED]			
ROOM NO.	BUILDING		
REMARKS:			
For inclusion in the Support Bulletin.			
<i>Should we indicate that this is another in the series of cost articles?</i>			
FROM: [REDACTED]			
ROOM NO.	BUILDING	EXTENSION	

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FORM NO. 241
1 FEB 55

REPLACES FORM 36-8
WHICH MAY BE USED.

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